



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 12, 2013

Contact: Andy Nielsen
515/281-5834

The Office of Auditor of State today released an audit report on City of Hamburg, Iowa.

The City's receipts totaled \$2,258,095 for the year ended June 30, 2012. The receipts included \$634,835 in property tax, \$485,748 from charges for service, \$629,792 from operating grants, contributions and restricted interest, \$93,229 from local option sales tax, \$1,491 from unrestricted interest on investments and \$413,000 from note proceeds.

Disbursements for the year totaled 2,002,949, and included \$702,319 for public works, \$402,468 for debt service and \$151,318 for culture and recreation. Also, disbursements for business type activities totaled \$479,018.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1221-0339-B00F.pdf>.

#

CITY OF HAMBURG
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 14-15
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 16-17
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 18
Notes to Financial Statements	19-25
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	28-29
Notes to Other Information – Budgetary Reporting	30
Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 32-33
Bond Maturities	2 34
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	35-36
Schedule of Findings	37-43
Staff	44

City of Hamburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Cathy E. Crain	Mayor	Jan 2012
Kent Benefiel	Mayor Pro tem	Jan 2012
Earl Hendrickson	Council Member	Jan 2012
Mary Lou Perry	Council Member	Jan 2012
Jimmie Randolph	Council Member	Jan 2014
Willie Thorp	Council Member	Jan 2014
Sheryl Owen	Clerk	Indefinite
T.J. Pattermann	Attorney	Indefinite
(After January 2012)		
Cathy E. Crain	Mayor	Jan 2016
Kent Benefiel	Mayor Pro tem	Jan 2016
Jimmie Randolph	Council Member	Jan 2014
Willie Thorp	Council Member	Jan 2014
Earl Hendrickson	Council Member	Jan 2016
Mary Lou Perry	Council Member	Jan 2016
Sheryl Owen	Clerk	Indefinite
T.J. Pattermann	Attorney	Indefinite

City of Hamburg



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hamburg, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hamburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.


As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hamburg as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2013 on our consideration of the City of Hamburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hamburg's basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hamburg's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hamburg provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 46%, or approximately \$376,000, from June 30, 2011 to June 30, 2012 to approximately \$1,202,000.
- The cash basis net assets of the City's business type activities decreased 109%, or approximately \$121,000, from June 30, 2011 to June 30, 2012, due primarily to making the final payment on the 1997 sewer revenue notes as well as increased costs related to flood damage which occurred in the summer of 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

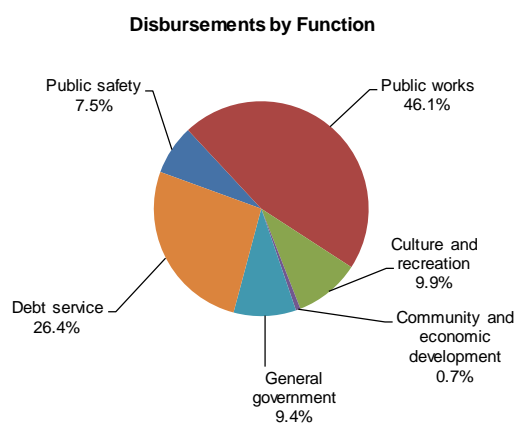
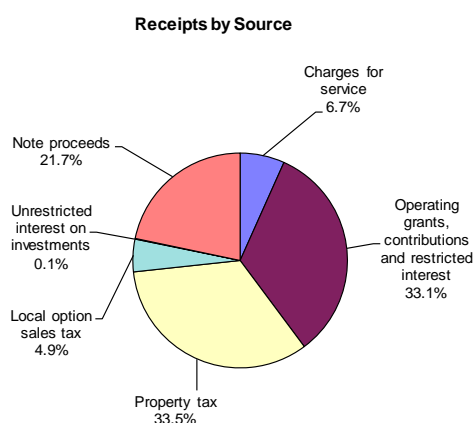
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$826,000 to approximately \$1,202,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 127,755
Operating grants, contributions and restricted interest	629,792
General receipts:	
Property tax	634,835
Local option sales tax	93,229
Unrestricted interest on investments	1,491
Note proceeds	413,000
Total receipts	<u>1,900,102</u>
Disbursements:	
Public safety	114,627
Public works	702,319
Culture and recreation	151,318
Community and economic development	10,404
General government	142,795
Debt service	402,468
Total disbursements	<u>1,523,931</u>
Change in cash basis net assets	376,171
Cash basis net assets beginning of year	<u>825,985</u>
Cash basis net assets end of year	<u><u>\$ 1,202,156</u></u>



The cash basis net assets of the City's business type activities decreased \$121,025, due primarily to increased disbursements from the flood damage that occurred during the summer months of 2011.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 200,412
Sewer	157,581
Total receipts	<u>357,993</u>
Disbursements:	
Water	202,296
Sewer	276,722
Total disbursements	<u>479,018</u>
Change in cash basis net assets	(121,025)
Cash basis net assets beginning of year	<u>(111,017)</u>
Cash basis net assets end of year	<u><u>\$ (232,042)</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hamburg completed the year, its governmental funds reported a combined fund balance of \$1,202,156, an increase of \$376,171 above last year's total of \$825,985. The following are the major reasons for the changes in fund balances from the prior year.

- The General Fund cash balance increased \$170,667 from the prior year to \$823,753. The increase was primarily due to the issuance of a \$413,000 grant anticipation note which was used to cover the cost of disaster recovery projects. The City was later reimbursed by FEMA and \$250,000 of the principal was redeemed before year end while the remaining \$163,000 was redeemed in early fiscal year 2013.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$48,682 to (\$296,382). This decrease was attributable to street maintenance disbursements exceeding the road use tax allocation from the state.
- The Special Revenue, Employee Benefits Fund cash balance increased \$91,057 to \$266,668. This increase was attributable to approximately \$91,000 of property tax received this fiscal year. The City intends to use this money to offset the costs of employee benefits, such as the City portion of IPERS and FICA and health insurance costs. The City has not yet transferred these funds to the funds which paid the employee benefits.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$78,921 to \$254,727. This increase was attributable to approximately \$93,000 of local option sales tax received this fiscal year. The City intends to use this money to upgrade the condition of all City infrastructure.
- The Debt Service Fund cash balance increased \$74,900 to \$133,970. This increase was due to the City including the 1997 sewer revenue notes which were required to be paid from the Enterprise, Sewer Fund in its debt service levy.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$1,884 to (\$41,504), due primarily to expenses in the Water Fund exceeding the receipts due to flood related overtime and general expenses.
- The Enterprise, Sewer Fund cash balance decreased \$119,141 to (\$190,538), due primarily to extra lagoon work in fiscal year 2012 related to flood repair from the flooding during the summer of 2011 as well as making the final payment on the 1997 sewer revenue notes.

BUDGETARY HIGHLIGHTS

The City did not amend its budget.

The City's receipts were \$455,300 more than budgeted. This was primarily due to the City receiving FEMA reimbursements which were not included in the original budget.

Total disbursements were \$692,716 more than budgeted. However, actual disbursements for the public safety and community and economic development functions were \$20,617 and \$8,096, respectively, less than budgeted. This was primarily due to the City being focused on flood prevention and recovery efforts during the fiscal year. Less money was spent in areas not as critical as preventing the town from flooding when the Missouri river rose over its banks.

The City exceeded the amounts budgeted in the public works, culture and recreation, general government, debt service and business type activities functions for the year ended June 30, 2012, due primarily to higher costs for flood prevention and recovery related to FEMA projects.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$1,043,677 of bonds and other long-term debt outstanding, compared to \$1,053,205 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2012	2011
General obligation bonds	\$ 827,246	936,246
Grant anticipation notes	163,000	-
Revenue notes	-	45,000
Lease purchase agreements	53,431	71,959
Total	\$ 1,043,677	1,053,205

Debt decreased as a result of the City securing a line of credit to pay for the unexpected flood repairs as well as making scheduled payments on existing debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and other debt of \$1,043,677 is significantly below its constitutional debt limit of approximately \$2.5 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hamburg's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City is higher than the State average.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$2,017,873, a decrease of 9.9% from the fiscal year 2012 budget. Budgeted disbursements are expected to decline approximately \$150,000.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$171,000 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sheryl Owen, City Clerk, 1201 Main Street, City of Hamburg, Iowa 51640.

Basic Financial Statements

City of Hamburg

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 114,627	316	-
Public works	702,319	84,381	629,792
Culture and recreation	151,318	25,170	-
Community and economic development	10,404	-	-
General government	142,795	17,888	-
Debt service	402,468	-	-
Total governmental activities	1,523,931	127,755	629,792
Business type activities:			
Water	202,296	200,412	-
Sewer	276,722	157,581	-
Total business type activities	479,018	357,993	-
Total	\$ 2,002,949	485,748	629,792

General Receipts:

Property and other city tax levied for:

 General purposes

 Debt service

Local option sales tax

Unrestricted interest on investments

Note proceeds

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 Expendable:

 Library

 Infrastructure

 Economic development

 Debt service

 Employee benefits

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(114,311)	-	(114,311)
11,854	-	11,854
(126,148)	-	(126,148)
(10,404)	-	(10,404)
(124,907)	-	(124,907)
(402,468)	-	(402,468)
(766,384)	-	(766,384)
-	(1,884)	(1,884)
-	(119,141)	(119,141)
-	(121,025)	(121,025)
(766,384)	(121,025)	(887,409)
413,465	-	413,465
221,370	-	221,370
93,229	-	93,229
1,491	-	1,491
413,000	-	413,000
1,142,555	-	1,142,555
376,171	(121,025)	255,146
825,985	(111,017)	714,968
\$ 1,202,156	(232,042)	970,114
\$ 129,432		129,432
254,727	-	254,727
19,420	-	19,420
296,970	-	296,970
266,668		266,668
234,939	(232,042)	2,897
\$ 1,202,156	(232,042)	970,114

City of Hamburg

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 322,408	-	91,057	-
Other city tax	376	-	-	93,229
Licenses and permits	626	-	-	-
Use of money and property	3,978	15	-	24
Intergovernmental	494,769	123,797	-	-
Charges for service	109,841	-	-	-
Miscellaneous	25,611	-	-	-
Total receipts	957,609	123,812	91,057	93,253
Disbursements:				
Operating:				
Public safety	114,627	-	-	-
Public works	529,825	172,494	-	-
Culture and recreation	151,318	-	-	-
Community and economic development	5,379	-	-	-
General government	142,795	-	-	-
Debt service	255,998	-	-	-
Total disbursements	1,199,942	172,494	-	-
Excess (deficiency) of receipts over (under) disbursements	(242,333)	(48,682)	91,057	93,253
Other financing sources (uses):				
Note proceeds	413,000	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	(14,332)
Total other financing sources (uses)	413,000	-	-	(14,332)
Change in cash balances	170,667	(48,682)	91,057	78,921
Cash balances beginning of year	653,086	(247,700)	175,611	175,806
Cash balances end of year	\$ 823,753	(296,382)	266,668	254,727
Cash Basis Fund Balances				
Restricted for:				
Library	\$ 129,432	-	-	-
Infrastructure	-	-	-	254,727
Economic development	-	-	-	-
Debt service	163,000	-	-	-
Employee benefits	-	-	266,668	-
Unassigned	531,321	(296,382)	-	-
Total cash basis fund balances	\$ 823,753	(296,382)	266,668	254,727

See notes to financial statements.

	Nonmajor		
	Special		
	Revenue		
	LOST		
Debt	Economic		
Service	Development		Total
221,370	-		634,835
-	-		93,605
-	-		626
-	1		4,018
-	-		618,566
-	-		109,841
-	-		25,611
221,370	1		1,487,102
-	-		114,627
-	-		702,319
-	-		151,318
-	5,025		10,404
-	-		142,795
146,470	-		402,468
146,470	5,025		1,523,931
74,900	(5,024)		(36,829)
-	-		413,000
-	14,332		14,332
-	-		(14,332)
-	14,332		413,000
74,900	9,308		376,171
59,070	10,112		825,985
133,970	19,420		1,202,156
-	-		129,432
-	-		254,727
-	19,420		19,420
133,970	-		296,970
-	-		266,668
-	-		234,939
133,970	19,420		1,202,156

City of Hamburg

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 200,384	156,981	357,365
Miscellaneous	28	600	628
Total operating receipts	200,412	157,581	357,993
Operating disbursements:			
Business type activities	199,331	121,528	320,859
Excess of operating receipts over operating disbursements	1,081	36,053	37,134
Non-operating disbursements:			
Debt service	(2,965)	(50,985)	(53,950)
Capital projects	-	(104,209)	(104,209)
Total non-operating disbursements	(2,965)	(155,194)	(158,159)
Change in cash balances	(1,884)	(119,141)	(121,025)
Cash balances beginning of year	(39,620)	(71,397)	(111,017)
Cash balances end of year	\$ (41,504)	(190,538)	(232,042)
Cash Basis Fund Balances			
Unrestricted	\$ (41,504)	(190,538)	(232,042)

See notes to financial statements.

City of Hamburg

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Hamburg is a political subdivision of the State of Iowa located in Fremont County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hamburg has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Fremont County Assessor's Conference Board, Fremont County Emergency Management Commission, Fremont County Landfill Commission and Fremont County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax collections to be used for paying for the benefits offered to City employees.

The Local Option Sales Tax Fund is used to account for property tax collections to be used for paying for improvements to the City's infrastructure and for local economic development.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Note Payable

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 114,000	32,360	146,360
2014	120,000	28,037	148,037
2015	125,000	23,387	148,387
2016	131,000	18,482	149,482
2017	136,000	13,232	149,232
2018-2021	201,246	7,657	208,903
Total	\$ 827,246	123,155	950,401

On July 13, 2011, the City entered into a \$1,000,000 grant anticipation note agreement with Great Western Bank to be used for the purpose of paying costs in connection with disaster recovery projects. The note was issued pursuant to Chapters 76.31 and 384.24A of the Code of Iowa in anticipation of the receipt of and is payable from the proceeds of a FEMA disaster assistance grant. At June 30, 2012, the City had drawn \$413,000 against the grant anticipation note and redeemed \$250,000 of principal with grant receipts, leaving an ending balance of \$163,000.

(4) Lease Purchase Agreements

On July 20, 2008, the City entered into a lease purchase agreement for a backhoe for \$58,500. The lease purchase agreement bears 4.5% per annum interest to be financed over a five-year period.

On February 24, 2011, the City entered into a lease purchase agreement for a Ford F350 pickup with a snow plow for \$38,227. The lease purchase agreement bears 6.35% per annum interest to be financed over a five-year period.

The following is a schedule of the future minimum lease payments and present value of the minimum lease payments under the agreements in effect at June 30, 2012.

Year Ending June 30,	Backhoe	Ford F350 w/ Snow Plow	Total
2013	\$ 13,361	8,896	22,257
2014	13,361	8,896	22,257
2015	-	8,896	8,896
2016	-	5,189	5,189
Total minimum lease payments	26,722	31,877	58,599
Less amount representing interest	(1,735)	(3,433)	(5,168)
Present value of net minimum lease payments	\$ 24,987	28,444	53,431

Payments under the lease purchase agreements for the year ended June 30, 2012 totaled \$22,257.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012 was \$15,661, equal to the required contributions for the year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 5 active and no retired members in the plan. Retired participants must be age 65 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare Plan of the River Valley, Inc. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$331 for single coverage. For the year ended June 30, 2012, the City contributed \$18,328 and plan members eligible for benefits did not contribute to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused paid time off (PTO) hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned PTO payable to employees at June 30, 2012, primarily relating to the General Fund, is \$31,500. This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	Special Revenue:	
LOST Economic Development	Local Option Sales Tax	<u>\$ 14,332</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$19,907.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balances

The Special Revenue, Road Use Tax and Enterprise, Water and Sewer Funds had deficit balances of \$296,382, \$41,504, and \$190,538, respectively, at June 30, 2012. The deficit balance in the Special Revenue, Road Use Tax Fund is a result of road maintenance disbursements exceeding road use tax allocations from the State with transfers not being made from the General Fund to cover the difference. In the Enterprise, Water and Sewer Funds, collections from customers have not kept up with the costs of the enterprises. The deficits will be eliminated through transfers from other funds, as well as potential water and sewer rate increases.

(11) Subsequent Events

In September 2012, the City renewed the grant anticipation note in the amount of \$163,000.

In February 2013, the City issued \$575,000 of general obligation refunding bonds, series 2013 to refund the 2006 general obligation main street bonds.

In April 2013, the City entered into a contract with Hendrickson Transportation, LLC in the amount of \$649,000 for the removal of the Missouri River levy addition added during the summer of 2011. The City will be reimbursed 75% of the cost by FEMA and 10% of the cost by the State.

City of Hamburg

Other Information

City of Hamburg

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 634,835	-
Other city tax	93,605	-
Licenses and permits	626	-
Use of money and property	4,018	-
Intergovernmental	618,566	-
Charges for service	109,841	357,993
Miscellaneous	25,611	-
Total receipts	<u>1,487,102</u>	<u>357,993</u>
Disbursements:		
Public safety	114,627	-
Public works	702,319	-
Culture and recreation	151,318	-
Community and economic development	10,404	-
General government	142,795	-
Debt service	402,468	-
Business type activities	-	479,018
Total disbursements	<u>1,523,931</u>	<u>479,018</u>
Excess (deficiency) of receipts over (under) disbursements	(36,829)	(121,025)
Other financing sources, net	<u>413,000</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	376,171	(121,025)
Balances beginning of year	<u>825,985</u>	<u>(111,017)</u>
Balances end of year	<u><u>\$ 1,202,156</u></u>	<u><u>(232,042)</u></u>

See accompanying independent auditor's report.

Total	Budgeted Amounts Original/Final	Final to Total Variance
634,835	620,458	14,377
93,605	142,303	(48,698)
626	1,100	(474)
4,018	-	4,018
618,566	119,000	499,566
467,834	506,934	(39,100)
25,611	-	25,611
1,845,095	1,389,795	455,300
114,627	135,244	20,617
702,319	206,750	(495,569)
151,318	146,214	(5,104)
10,404	18,500	8,096
142,795	123,785	(19,010)
402,468	216,340	(186,128)
479,018	463,400	(15,618)
2,002,949	1,310,233	(692,716)
(157,854)	79,562	(237,416)
413,000	-	413,000
255,146	79,562	175,584
714,968	849,515	(134,547)
970,114	929,077	41,037

City of Hamburg

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not amend its budget during the year.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government, debt service and business type activities functions.

Supplementary Information

City of Hamburg
Schedule of Indebtedness
As of and for the year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
2006 main street bond	Apr 15, 2006	3.65 - 4.35%	\$ 1,100,000
2002 sewer improvement SRF bond	Mar 27, 2002	3.00% *	396,000
Total			
Grant anticipation note	Jul 13, 2011	3.25%	\$ 413,000
Revenue notes:			
1997 sewer	Nov 1, 1997	5.60%	\$ 330,000
Lease purchase agreements:			
Backhoe	Jul 20, 2008	4.50%	\$ 58,500
Ford F350 with snow plow	Feb 24, 2011	6.35%	38,227
Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
735,000	-	90,000	645,000	30,403
201,246	-	19,000	182,246	6,037
\$ 936,246	-	109,000	827,246	36,440
-	413,000	250,000	163,000	5,998
45,000	-	45,000	-	2,520
36,663	-	11,676	24,987	1,684
35,296	-	6,852	28,444	2,044
\$ 71,959	-	18,528	53,431	3,728

Schedule 2

City of Hamburg

Bond Maturities

Year ended June 30, 2012

Year Ending June 30,	General Obligation Bonds				Total
	2006 Main Street Bond		2002 Sewer Improvement		
	Issued Apr 15, 2006		Issued Mar 27, 2002		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.95%	\$ 95,000	3.00%	\$ 19,000	114,000
2014	4.05	100,000	3.00	20,000	120,000
2015	4.10	105,000	3.00	20,000	125,000
2016	4.20	110,000	3.00	21,000	131,000
2017	4.30	115,000	3.00	21,000	136,000
2018	4.35	120,000	3.00	22,000	142,000
2019		-	3.00	23,000	23,000
2020		-	3.00	23,000	23,000
2021		-	3.00	13,246	13,246
Total		\$ 645,000		\$ 182,246	827,246

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hamburg, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 30, 2013. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Hamburg is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hamburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hamburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hamburg's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Hamburg's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (E) through (I) to be significant deficiencies.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Hamburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hamburg's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hamburg's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hamburg and other parties to whom the City of Hamburg may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hamburg during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 30, 2013

City of Hamburg
Schedule of Findings
Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the City:

- (1) Investments – investing, recording and custody.
- (2) Receipts – collecting, depositing, journalizing and posting.
- (3) Disbursements – check writing, signing and posting.
- (4) Payroll – changes to master list, preparation and distribution.
- (5) Accounting system – record keeping for the receipts cycle, disbursement/expense cycle and reporting.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials.

Response – We understand this and will work toward new procedures.

Conclusion – Response accepted.

- (B) Financial Reporting – During the audit, we identified a material amount of disbursements recorded in an inappropriate fund. The principal, interest and note fees for the sewer revenue notes were disbursed from the Debt Service Fund instead of the Enterprise, Sewer Fund. We also noted a material amount of proceeds from a grant anticipation note which were recorded as negative disbursements. Adjustments were subsequently made by the City to properly adjust these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure disbursements are made from the appropriate fund and ensure debt proceeds are recorded as other financing sources rather than negative disbursements.

Response – The City will implement procedures to ensure debt proceeds are properly recorded and disbursements are made from the appropriate fund by purchasing a municipal finance program.

Conclusion – Response accepted.

City of Hamburg
Schedule of Findings
Year ended June 30, 2012

- (C) Annual Financial Report – The City prepared the Annual Financial Report for the fiscal year ended June 30, 2012. However, the receipts, disbursements and cash basis fund balances by fund/fund type were materially misstated although, in total, receipts, disbursements and cash basis fund balances were materially correct.

Recommendation – The City should develop procedures to ensure the Annual Financial Report is accurate in total as well as by fund/fund type.

Response – Once the City has purchased new software with fund balancing, this will no longer be a problem. Our current software is not specifically made for municipal financing.

Conclusion – Response accepted.

- (D) Separately Maintained Records - The bookkeeping and custody of the Library checking and savings accounts and CD investments were under the control of the Library Board in a location separate from the City Clerk's office. These material accounts were not reflected in the City's accounting system and have not been included in the City's annual budget, Annual Financial Reports or monthly financial reports.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the City Clerk's records.

Response – For accountability, financial and budgetary control, the City will keep Library records at the City Hall and will include them in the City budget.

Conclusion - Response accepted.

- (E) Computer Systems – The following weaknesses in the City's computer systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or prevent the reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.
- Requiring timeout or logoff functions be utilized when terminals are left unattended.
- Requiring computer journal entries be reviewed and approved by an independent individual.
- A disaster recovery plan.

City of Hamburg
Schedule of Findings
Year ended June 30, 2012

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer systems.

Response – We understand this and will work toward implementing new policies and procedures.

Conclusion – Response accepted.

- (F) Receipts Listing – A listing of cash and checks received in the mail is not prepared.

Recommendation – A listing of all cash and receipts received in the mail should be prepared by a person other than accounting personnel. The listing should be compared to the receipt records by an independent person.

Response – We understand this and have implemented this procedure.

Conclusion – Response accepted

- (G) Employee Evaluations – Annual evaluations are not completed by the City Council for all city employees.

Recommendation - The City should complete annual evaluations for all city employees to ensure adequate tracking of job performance is maintained.

Response – We understand this and will work toward procedures to complete annual evaluations for all employees.

Conclusion – Response accepted.

- (H) Transfers - The City transferred funds from the Special Revenue, Local Option Tax Fund to the Special Revenue, LOST Economic Development Fund. However, this transfer was not approved by the City Council prior to the actual transfer.

Recommendation - The City should approve all fund transfers prior to the actual transfer and document approval and amount(s) in the City Council minutes.

Response – The City has already taken steps to approve all fund transfers prior to the actual transfers and document approval and amounts as part of the minutes.

Conclusion – Response accepted.

- (I) Disbursements - Invoices and other supporting documentation was not always available to support disbursements. 2 of 12 transactions tested did not have supporting documentation which could be located.

Recommendation - All disbursements should be supported by invoices or other supporting documentation.

Response – We understand this. We will work to make sure this is taken care of in the future.

Conclusion – Response accepted.

City of Hamburg

Schedule of Findings

Year ended June 30, 2012

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hamburg
Schedule of Findings
Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public works, culture and recreation, general government, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We understand this. A FEMA project occurring during the fiscal year put us over our budgeted disbursements. We will look at our budgets periodically in the future and make amendments as necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Toby Crain, Mayor’s nephew	Mowing, per bid	\$ 9,383
Kerry Crain, Mayor’s brother	Weed spraying	1,290
Benefiel Truck Repair and Towing, owned by Council Member Kent Benefiel	Towing and auto repair	417

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the Council Member and the Mayor’s brother do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year. The transactions with the Mayor’s nephew do not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Hamburg

Schedule of Findings

Year ended June 30, 2012

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Sewer Revenue Notes – The note resolution states, in part, the notes "shall be payable from the net revenues of the utility" and also states "none of the series 1997 notes shall be a general obligation of the City, nor payable in any manner by taxation".

For the fiscal years ended June 30, 2011 and 2012, the City included the principal, interest and note fees related to the sewer revenue notes in its debt service levy and disbursed those amounts from the Debt Service Fund.

Recommendation – The City should not levy a tax for sewer revenue note principal, interest and note fees. Those disbursements should be paid from the net revenues of the sewer utility. The City should determine the amount disbursed from the Debt Service Fund and make a corrective transfer from the Enterprise, Sewer Fund to the Debt Service Fund. In addition, the City should consult legal counsel regarding this matter.

Response – The City will determine the amount disbursed from the Debt Service Fund and make a corrective transfer from the Enterprise, Sewer Fund to the Debt Service Fund. The City has also contacted the City Attorney on this matter.

Conclusion – Response accepted.

- (9) Debt Service Levy – The City's debt service levy included \$13,361 for the Ford F350 lease, but the actual payment due on the lease was only \$8,896.

Recommendation – The City should only include actual payments due in the next year when calculating its debt service levy. The City should consult legal counsel regarding the excess debt service levy.

Response – The City will only include the actual payments due in the next year when calculating its debt service levy. The City has contacted the City attorney on this matter.

Conclusion – Response accepted.

- (10) Employee Benefits Levy – For fiscal years 2010, 2011 and 2012 the City inadvertently certified the entire employee benefits levy on the "FICA & IPERS" line of the Certification of City Taxes rather than certifying a portion as "Other Employee Benefits". Pursuant to the Iowa Department of Management and Iowa Administrative Code [545], Ch. 4, the taxes collected in each of these years can only be used to cover FICA and IPERS disbursements for General Fund and Special Revenue, Road Use Tax Fund employees.

The tax collections discussed above were receipted into the Special Revenue, Employee Benefits Fund, but there have been no disbursements or transfers to reimburse the General or Special Revenue, Road Use Tax Funds for the FICA and IPERS disbursements related to employee salaries paid from those funds.

City of Hamburg

Schedule of Findings

Year ended June 30, 2012

In addition, it appears the City included employee benefits related to employee salaries paid from the Enterprise, Water and Sewer Funds in its property tax levy. Per Iowa Administrative Code [545], Ch. 4, the employee benefits levy is only for employee benefits related to employee salaries paid from the General Fund and the Special Revenue, Road Use Tax Fund.

Recommendation – The City should determine the amount of FICA and IPERS attributable to General Fund and Special Revenue, Road Use Tax Fund employees for fiscal years 2010, 2011 and 2012 and make a transfer to each of these funds from the Special Revenue, Employee Benefits Fund. In addition, the City should not levy an employee benefits levy for FICA and IPERS until the tax collections receipted in fiscal years 2010, 2011 and 2012 have been disbursed for FICA and IPERS attributable to employees of the General Fund and the Special Revenue, Road Use Tax Fund. When calculating the employee benefits levy, the City should exclude employee benefits related to salaries paid from the Enterprise, Water and Sewer Funds.

Response – The City has determined the amount of FICA and IPERS attributed to General Fund and Special Revenue, Road Use Tax Fund employees for fiscal years 2010, 2011 and 2012. The transfers will be made. The City is currently looking into the process of doing away with the levy for FICA and IPERS until the tax collection has been disbursed.

Conclusion – Response accepted.

- (11) Public Hearing for Public Improvements - Notice was not given and a public hearing was not held on the issuance of the grant anticipation note as required by Chapter 384.24A of the Code of Iowa.

Recommendation - Before entering into any loan agreement, the City Council should set a date for a public hearing in accordance with Chapter 384.25(2) of the Code of Iowa and give notice not less than four nor more than twenty days before the date of the hearing in accordance with Chapter 362.3 of the Code of Iowa. The City should review this for compliance on future projects.

Response – We understand and have since contacted Dorsey & Whitney and have taken all steps to be in compliance with Chapter 384.24A of the Code of Iowa.

Conclusion – Response accepted.

- (12) Financial Condition – The Special Revenue, Road Use Tax and the Enterprise, Water and Sewer Funds had deficit balances at June 30, 2012.

Recommendation – The City should continue to investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response – We understand this and are making changes to our accounting software so this will not happen again. The deficits will be eliminated through transfers from other funds as well as looking into raising water and sewer rates.

Conclusion – Response accepted.

City of Hamburg

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Justin M. Scherrman, Staff Auditor
Kirstie Hill, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State